No. 85-1780

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

October Term, 1986

BIC LEISURE PRODUCTS, INC. and
WINDGLIDER FRED OSTERMANN, GmbH,

Petitioners,

vs.

WINDSURFING INTERNATIONAL, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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Questions Presented

This Petition raises issues of critical significance with respect to the promulgation by the Court of Appeals for the Federal Circuit of a new policy for the determination of patent misuse questions, which policy is fundamentally alien to and unequivocally irreconcilable with the Patent Misuse Doctrine, first enunciated by this Court almost seventy years ago in *Motion Picture Patents Co.* v. *Universal Film Manufacturing Co.*, 243 U.S. 502 (1917), and consistently adhered to since that time. It is particularly urgent that this Court address the vital issues of public policy relating to the use and enforcement of patents which are the subject of this Petition because, aside from this Court, the Court of Appeals for the Federal Circuit is the only other tribunal having appellate jurisdiction in patent cases:

A. Has the Court of Appeals, reversing the ruling of the District Court that the patent in suit had been misused, failed to make the mandated inquiry as to whether the patentee/licensor had unlawfully extended the monopoly of his patent beyond the scope commensurate with his invention, conducting instead only an unauthorized, speculative, and unprecedented "rule of reason" analysis of the possible anticompetitive effect.

B. Has the Court of Appeals, by disregarding the concept which is the foundation of the equitable Patent Misuse Doctrine and adopting instead an "economic analysis" rationale, created a new policy, irreconcilable with that originated by this Court, under which no licensing practice shall be declared a misuse unless it is tantamount to a violation of the antitrust laws.

C. Has the Court of Appeals, in failing to find misuse, decided that issue in a manner clearly in conflict with the standards mandated by this Court, ignoring the Patent Misuse Doctrine and disregarding the incontrovertible

proof that the patentee/licensor, who actively enforced his patent through litigation, had unlawfully extended his limited monopoly beyond the scope commensurate with his invention by refusing to grant rights to any of eleven licensees under a patent for a sailboard unless the licensees would agree to relinquish their otherwise available statutory rights to challenge the validity of the licensor's trademarks, the licenses being terminable upon the making of any such challenge.

Parties

The parties named in the caption are the only parties to these proceedings. Petitioner, BIC Leisure Products, Inc., is a wholly-owned subsidiary of BIC Corporation, which, in turn, is a partially-owned subsidiary of Societe Bic S.A., a French corporation. Petitioner, Windglider Fred Ostermann, GmbH, is, either directly or indirectly, a wholly-owned subsidiary of Societe Bic S.A.

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No. 86-

IN THE

Supreme Court of the United States

October Term, 1986

BIC LEISURE PRODUCTS, INC. and
WINDGLIDER FRED OSTERMANN, GmbH,
Petitioners,

vs.

WINDSURFING INTERNATIONAL, INC.,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Petitioners, BIC Leisure Products, Inc. and Windglider Fred Ostermann, GmbH, hereby request this Court to issue a Writ of Certiorari to review so much of the January 28, 1986 decision of the United States Court of Appeals for the Federal Circuit as reversed the ruling of the District Court that the patent in suit had been misused.

Opinion Below

The opinion of the United States Court of Appeals for the Federal Circuit, reported at 782 F.2d 995 (Fed. Cir. 1986), is reprinted as Appendix A, pp. 1a-17a of this Petition.

Jurisdiction

The judgment of the Court of Appeals for the Federal Circuit in this action was entered on January 28, 1986. Neither party requested rehearing.

The jurisdiction of this Court is invoked pursuant to 28 U.S.C. §1254(1).

Statement of the Case

The district court case[1] was a declaratory judgment action instituted by BIC Leisure Products alleging that United States Reissue patent No. 31,167 ("the '167 patent"), owned by Windsurfing International, Inc. and relating to a sailboard, was invalid, unenforceable and not infringed. On July 15, 1985, the District Court for the Southern District of New York entered an opinion holding the '167 patent valid and infringed, but ruling that respondent had misused the patent by illegally expanding the legitimate monopoly thereof through a requirement that its licensees, as a condition for obtaining licenses under the patent, acknowledge the validity of certain trademarks also owned by respondent and refrain from using these trademarks in any form on any product. *Windsurfing International, Inc.* v. *Fred Ostermann GmbH*, 613 F. Supp. 933 (S.D.N.Y. 1985).

On appeal, the Court of Appeals for the Federal Circuit ("the Federal Circuit") affirmed the District Court's findings of validity and infringement, but reversed the lower court's finding of patent misuse. *Windsurfing International, Inc.* v. *AMF Incorporated*, 782 F.2d 995 (Fed. Cir. 1986). Its decision was premised on an erroneous view of

1. The case in the District Court involved three consolidated actions relating, *inter alia*, to the validity, infringement and enforceability of the patent in suit. Civil Action No. 83 Civ. 3774 is the declaratory judgment action instituted by petitioners.

the Patent Misuse Doctrine which is alien to and irreconcilable with that Doctrine as promulgated and enforced by this Court. In particular, in making its determination regarding misuse, the Federal Circuit ignored the important public policy considerations underlying the Doctrine and failed even to consider whether the respondent had unlawfully extended its patent monopoly. Rather, in reversing the court below, the Federal Circuit applied an unauthorized, unprecedented "rule of reason" analysis.

Reasons for Allowance of the Writ

This Court should exercise its power of supervision to rectify the critical and complete departure of the Court of Appeals for the Federal Circuit from the basic concepts of the Patent Misuse Doctrine, a policy first announced by this Court almost seventy years ago, and now peremptorily discarded by a newly-created tribunal in its initial substantive consideration thereof.

At the same time, this Court should apply the proper standards to the facts of the case at bar to redress the effects of the erroneous ruling below which condoned a patent licensing policy under which licensees were coerced into relinquishing their statutory right, otherwise available, to challenge the validity of the licensor's trademarks.

A. The Federal Circuit Has Created A Policy For The Determination Of Patent Misuse Questions Which Disregards The Doctrine Promulgated By This Court And Confuses Patent Misuse With Violations Of The Antitrust Laws

The Patent Misuse Doctrine, first enunciated by this Court in *Motion Pictures Patents Co.* v. *Universal Film Manufacturing Co., supra,* is founded upon important public policy considerations which emanate from Article I,

Section 8 of the United States Constitution. The economic considerations which prompted the enactment and subsequent enforcement of the antitrust laws and which constitute the basis of the policy announced by the Federal Circuit are totally alien to questions of patent misuse.[2] "Patent misuse" is inequitable conduct by a patent owner which may be raised as a defense in any action to enforce the patent. It stems, as this Court has recognized, from the equitable principle of unclean hands.[3] *See Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488, 491-92 (1942). Prior to *Motion Pictures Patents*, patent misuse questions were treated in accordance with the rulings in *Henry v. A. B. Dick Co.*, 224 U.S. 1 (1912) and the earlier circuit court decision in *Heaton-Peninsular Button-Fastener Co.* v. *Eureka Specialty Co.*, 77 F. 288 (6th Cir. 1896).

In *Button-Fastener*, the patent owner sold patented machines for fastening buttons on shoes, but required that the buyer also purchase from him the requisite unpatented fasteners. Having undertaken an economic analysis, the Court of Appeals for the Sixth Circuit rejected the argument of the defendant that the restrictive provision was

2. In direct contrast to the strong public policy against the improper extension of the patent monopoly which underlies the equitable doctrine of patent misuse, the antitrust laws "rest on the premise that the unrestrained interaction of competitive forces will yield the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress . . . ." *Northern Pac. Ry.* v. *United States*, 356 U.S. 1, 4 (1958). A patent monopoly, by definition, restrains competitive forces and is obviously inconsistent with the philosophy of the antitrust laws. *See* 35 U.S.C. §154.

3. Since the creation of the doctrine of patent misuse almost seventy years ago, this Court has consistently distinguished between patent misuse and violations of the antitrust laws. *See, e.g., Motion Pictures Patents Co.* v. *Universal Film Manufacturing Co., supra. See also Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 140-41 (1969); *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637, 641 (1947); *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314 U.S. 488, 494 (1942).

illegal and unenforceable because the "public policy in respect of monopolies and contracts in restraint of trade" forbids a patent owner from using the monopoly in the patented machines to establish a monopoly in the unpatented fasteners. 77 F. at 292. The court reasoned that since the patent owner could legitimately monopolize the sale of unpatented shoes, it was not anticompetitive for the patent owner instead to license other shoe manufacturers on the condition that they purchase fasteners from him. *Id.* at 295.

In *Henry* v. *A. B. Dick Co., supra,* this Court sanctioned the practice of a patent owner who sold its patented mimeograph machine on the express condition that the user also purchase unpatented paper and ink. After examining the economic factors, this Court concluded that the user had not been damaged, but that the patent owner merely had chosen to secure its profit through the sale of accessories rather than by charging a higher price for the patented machines. 224 U.S. at 32.

The *Motion Picture Patents* case rejected the rationale of *Button-Fastener* and expressly overruled *A. B. Dick.* There, the patent covered a film feeder for a motion picture projector. Licenses under the patent were conditioned on the agreement to exhibit motion pictures leased only from persons authorized by the patent owner. This Court held that the restriction was unenforceable as contrary to public policy *regardless of whether it violated the antitrust laws* because the patent owner "should not be permitted by legal devices to impose an unjust charge upon the public. . . ." 243 U.S. at 513. As such, the provision was "plainly void because it [was] wholly without the scope and purpose of our patent laws and because, if sustained, it would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes." *Id.* at 519.

During the evolution of the Patent Misuse Doctrine, this Court consistently has emphasized the public policy considerations which are at its core. For example, in *Morton Salt Co.* v. *G. S. Suppiger Co., supra* at 492, 494, this Court further delineated the Doctrine, confirming its equitable origin and distinguishing it from the antitrust laws as follows:

> The grant to the inventor of the special privilege of a *patent monopoly*[4] carries out a *public policy* adopted by the Constitution and laws of the United States, "to promote the Progress of Science and useful Arts, by securing for limited Times to . . . Inventors the exclusive Right . . ." to their "new and useful" inventions. . . . But the *public policy* which includes inventions within the granted monopoly *excludes from it all that is not embraced in the invention.* It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and *which is contrary to public policy to grant.*
>
> It is a principle of general application that courts, and *especially courts of equity,* may appropriately withhold their aid where the plaintiff is *using the right asserted contrary to the public interest.*
>
> * * *
>
> It is the *adverse effect upon the public interest* of a successful infringement suit, in conjunction with the patentee's course of conduct, which disqualifies him to maintain the suit, *regardless of whether the particular defendant has suffered from the misuse of the patent.*
>
> * * *
>
> *It is unnecessary to decide whether respondent has violated the Clayton Act,* for we conclude that in any event the maintenance of the present suit to restrain petitioner's manufacture or sale of the alleged in-

4. Emphasis added. Wherever emphasis appears in this Petition, it has been added unless otherwise indicated.

> fringing machines *is contrary to public policy and that the district court rightly dismissed the complaint for want of equity.* (citations omitted).

Accord, B. B. Chemical Co. v. *Ellis,* 314 U.S. 495 (1942); *United States* v. *Univis Lens Co.,* 316 U.S. 241 (1942).

The policy of *Morton Salt* has been followed uniformly in later patent misuse decisions. Apposite is *Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U.S. 661, 665 (1944), wherein this Court declared:

> The grant of a patent is the grant of a special privilege "to promote the Progress of Science and useful Arts." Const., Art. I, § 8. It carries, of course, a right to be free from competition in the practice of the invention. *But the limits of the patent are narrowly and strictly confined to the precise terms of the grant. . . . It is the public interest which is dominant in the patent system.* . . . It is the protection of the public in a system of free enterprise which alike nullifies a patent where any part of it is invalid . . . *and denies to the patentee after issuance the power to use it in such a way as to acquire a monopoly which is not plainly within the terms of the grant.* . . . The fact that the patentee has the power to refuse a license *does not enable him to enlarge the monopoly of the patent by the expedient of attaching conditions to its use. . . . The method by which the monopoly is sought to be extended is immaterial.* . . . The patent is a privilege. But it is a privilege which is conditioned by a *public purpose.* It results from invention and is limited to the invention which it defines. (citations omitted).

Prior to the decision of the Federal Circuit in the case at bar, it was beyond reasonable dispute that the only proper inquiry to determine the existence of patent misuse was to ascertain whether the patent owner, particu-

larly through his licensing practices, had extended the patent monopoly beyond its permissible scope, regardless of the presence or absence of either an anticompetitive effect, damage to the infringer, or any other element necessary to the maintenance of an antitrust action. *Morton Salt Co.* v. *G. S. Suppiger Co., supra* at 494.[5] Certainly, whereas an antitrust claimant must generally establish the relevant market and show an anticompetitive effect resulting in injury to himself,[6] a party seeking to prove patent misuse need not establish any of those elements. *See Laitram Corp.* v. *King Crab, Inc.*, 245 F. Supp. 1019, 1020 (D. Alaska 1965).

In the face of the clear and unambiguous mandate of this Court, the Federal Circuit, addressing a patent misuse question for the first time in its history, has restored *A. B. Dick,* holding (13a-14a):

> The doctrine of patent misuse is an affirmative defense to a suit for patent infringement . . . and requires that the alleged infringer show that the patentee has impermissibly broadened the "physical or temporal scope" of the patent grant *with anticompetitive effect*. . . .
>
> To sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court, a *factual determination* must reveal that the overall effect of the license tends to *restrain competition unlawfully in an appropriately defined relevant market.* (footnote omitted) (citation omitted).

5. "It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the [conditional license] . . . is contrary to public policy. . . ." 314 U.S. at 494.

6. Civil actions alleging violations of the antitrust laws are limited to a "person who shall be injured in his business or property . . . ." 15 U.S.C. §15(a).

Since the Federal Circuit is the *only* Court of Appeals which hears patent cases, unless this Court affirmatively addresses this issue, "anticompetitive effect" will continue to be the prerequisite for establishing patent misuse, and the Patent Misuse Doctrine which was promulgated and nurtured by this Court will pass into oblivion. No longer will the inferior federal courts consider the "adverse effect upon the public interest"; the test will be indistinguishable from that of the antitrust laws.

To have engrafted antitrust principles upon the Patent Misuse Doctrine, the Federal Circuit has had to disregard the established precedent of this Court which defines patent misuse independent and apart from either the antitrust laws or principles of antitrust analysis. *See Zenith Radio Corp.* v. *Hazeltine Research, Inc., supra* at 140-41. Nowhere has this Court ever required the making of either a "factual determination" regarding the effects of a restraint on competition resulting from a patent license or the ascertainment of a "relevant market" as essential to the finding of patent misuse. The impermissible extension of a patent monopoly—itself an exception to the antitrust laws which prohibit monopolies—is judged not by the economic considerations underlying the antitrust laws, but by the public policy underlying the scope of protection afforded by the patent laws. The former, however, is at the heart of the Federal Circuit's decision. It is fundamentally alien to the basic concepts of the Patent Misuse Doctrine. Not since *A. B. Dick* has this been the law.[7]

7. In reversing the District Court, the Federal Circuit not only ignored the Patent Misuse Doctrine as originally established by this Court and consistently followed in its later decisions, but also relied, as the principal basis for its erroneous ruling, on certain aspects of a 1982 speech in which the speaker himself admitted that he was *not discussing what the law is, but rather what, in his opinion, it should be.* *See* Competition Policy and the Patent Misuse Doctrine, by Roger B. Andewelt, Chief, Intellectual Property Section, Antitrust

(footnote continued on next page)

This Court has historically granted certiorari in patent misuse cases when necessary to address substantial matters of public policy and to exercise its power and duty of supervision of the inferior federal courts. Certiorari was granted in *Dawson Chemical Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 185 (1980), "to resolve an issue of prime importance in the administration of the patent law." For the same reason, certiorari is warranted in this case.[8]

Petitioners have noted that appeals in all patent infringement actions are now heard exclusively by the Federal Circuit, making it, apart from this Court, the sole appellate arbiter of both the definition and the application of the Patent Misuse Doctrine. Unless this Court allows the present writ, the misuse policy of the Federal Circuit will be applied in every appeal presenting that issue. By its very nature, the new Federal Circuit view will quickly obliterate all traces of the existing doctrine and, without fail,

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Division, Department of Justice, Before the Bar Association for the District of Columbia, Patent Trademark & Copyright Section, 25 Pat. Trademark & Copyright J. (BNA) No. 604 at 41 (Nov. 11, 1982), reprinted as Appendix B, pp. 19a-35a of this Petition.

In this speech, Mr. Andewelt advocated returning to the approach defined in the *A. B. Dick* and the *Button-Fastener* decisions, which was rejected by this Court almost seventy years ago in *Motion Pictures Patents Co.* In essence, Mr. Andewelt, following the rationale strikingly similar to that later adopted by the Federal Circuit, recommended that patent misuse should be found only in those instances where an economic rule of reason analysis has revealed an anticompetitive effect. The Federal Circuit, although taken with his theory, somehow managed to ignore Mr. Andewelt's closing remarks (*Id.* at 35a):

> I have discussed *where the law should be rather than where it is.*

8. *Dawson Chemical Co.* v. *Rohm & Haas Co., supra,* dealt with the interface between the doctrines of patent misuse and contributory infringement. Over twenty years have passed since the most recent decision of this Court specifically addressing the question of patent misuse. *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964).

work to increase greatly the scope of the monopoly power of patent licensors.[9]

B. In Approving The Licensing Policy Of Respondent, The Federal Circuit Applied Standards Clearly In Conflict With Those Mandated By This Court

Petitioners' claim of patent misuse is based on paragraph 10 of respondent's standard license agreement, which recites (12a-13a):

> 10. *Trademarks*
>
> LICENSEE hereby acknowledges that the terms "WINDSURFER", "WINDSURFING", and "WIND SURF" and the logo which is attached hereto as Exhibit 3 are *all valid trademarks.* LICENSEE hereby agrees not to use any of the trademarks identified in this paragraph 10 in any form or fashion in its company name or any of its literature or advertising or promotional material or on any products whatsoever.[10]

Pursuant to paragraph 16, respondent could terminate the entire agreement if a licensee failed to correct a default of any provision of the agreement.

In reversing the District Court's finding of patent misuse, the Federal Circuit concluded (14a):

> The license agreement provision *merely asserted and recognized* [*respondent's*] *rights derived from the trademark laws.* The assertion of trademark rights

9. The present situation is compounded by the ever increasing number of patents which the Federal Circuit has held valid. In reported cases as of December 1985, the Federal Circuit had reversed only 6 of 32 district court judgments holding a patent valid, but had reversed 27 of 67 holding a patent invalid.

10. See license agreement between Windsurfing International, Inc. and petitioner, Windglider Fred Ostermann, GmbH. Defendant's Exhibit No. 139. The challenged provision is also found in each of respondent's ten other patent licenses.

> can have procompetitive effects . . . and thus under only the most rare of circumstances could such assertion, separately or as a provision in a patent license agreement, form in itself the basis for a holding of inequitable conduct such as that labeled "patent misuse".

The foregoing was founded upon the view that since a trademark registration enjoys a statutory presumption of validity, 15 U.S.C. §1057(b), the requirement that a licensee expressly acknowledge the validity of the licensed trademarks "merely . . . recognized . . . rights derived from the trademark laws." This analysis is flawed in several critical respects.

First, although a patent also enjoys a statutory presumption of validity, 35 U.S.C. §282, an agreement by the patent licensee acknowledging the validity of the licensed patent which, in substance, precludes the licensee from contesting the validity is void as against public policy. *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670-71 (1969).

Furthermore, by requiring his *patent licensees* to acknowledge the validity of his *trademarks*, respondent has in fact coerced them to relinquish a substantive statutory right to challenge or contest the validity of those trademarks under the provisions of 15 U.S.C. §1064; the Federal Circuit notwithstanding, that right is *not* abrogated by the mere presumption of validity. Clearly, the right to restrain another from contesting the validity of a trademark is far outside the scope of the monopoly granted to a patentee. Such forebearance could not have been extracted *but for* the desire of the promisors to obtain a license under the patent. Only by using improperly the leverage of his patent monopoly was respondent able to shelter his trademarks, thereby obtaining an unfair and illegal advantage over his patent licensees, and an undue benefit which he could not otherwise have obtained.[11]

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11. When respondent's trademarks finally were challenged by a non-licensee, they were held invalid on the grounds that they had become generic. *Windsurfing International, Inc.* v. *Fred Ostermann GmbH, supra.*

Nor did the Federal Circuit consider the fact that respondent also extracted an agreement prohibiting his patent licensees from using the trademarks *in any form or on any product.* The court disregarded the principle that trademark protection is ordinarily limited to the form of the mark which has been registered by the Patent and Trademark Office. Further, it is limited to the products covered by the registration and, in some cases, certain related products. The license provision in question deprived the patent licensees from using the trademarks according to 15 U.S.C. §1115(b)(4) which authorizes the *descriptive use* of any trademark. Certainly, had respondent not unlawfully leveraged his patent monopoly, he could not have obtained the undue advantage of a blanket prohibition against the use of his trademarks *in any form or on any product*—a benefit neither contemplated by the trademark laws nor otherwise properly available.

Conclusion

For the reasons presented, this Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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12. In reaching its decision, the Federal Circuit specifically noted that it was aware of no authority "for the proposition that patent misuse may be found on the basis of a patent license agreement provision recognizing and forbidding use of the licensor's validly registered trademarks" (14a). This however, is immaterial because, as this Court has observed, "the particular form or method by which the monopoly is sought to be extended is immaterial." *United States* v. *Univis Lens Co., supra* at 251-52.

Certificate of Service

This Petition for a Writ of Certiorari has been served upon Respondent by mailing copies thereof to Harold E. Wurst, Esq., Nilsson, Robbins, Dalgarn, Berlinger, Carson & Wurst, 707 Wilshire Boulevard, Suite 4750, Los Angeles, California 90017 and David R. Francescani, Esq., Darby & Darby, 405 Lexington Avenue, New York, New York 10174, this 28th day of April, 1986.

THOMAS F. REDDY, JR.

APPENDIX A

APPENDIX A

UNITED STATES COURT OF APPEALS

FOR THE FEDERAL CIRCUIT

Appeal Nos. 85-2808 and 85-2809

WINDSURFING INTERNATIONAL, INC.,

Appellees,

v.

AMF INCORPORATED,

Appellant.

Appeal Nos. 85-2835 and 85-2836

BIC LEISURE PRODUCTS, INC., WINDGLIDER FRED OSTERMANN, GmbH,

Appellants/Cross-Appellees,

v.

WINDSURFING INTERNATIONAL, INC.,

Appellee/Cross-Appellant.

Appeal Nos. 86-514 and 86-548

WINDSURFING INTERNATIONAL, INC.,

Cross-Appellant/Appellee,

v.

FRED OSTERMANN GmbH, AMF, INC., DOWNWIND CORP., and FREEBOARD SAILING, INC.,

Cross-Appellees/Appellants.

David H. Badger, Willian, Brinks, Olds, Hofer, Gilson & Lione, of Indianapolis, Indiana, argued for appellant AMF Incorporated.

Thomas R. Reddy, Jr., Pennie & Edmonds, of New York, New York, argued for appellant BIC Leisure Products, Inc. With him on the brief were *Joseph V. Colaianni*, Pennie & Edmonds, of Washington, D.C., and *Brian M. Poissant*, Pennie & Edmonds, of New York, New York.

Harold E. Wurst, Nilsson, Robbins, Dalgarn, Berliner, Carson & Wurst, of Los Angeles, California, argued for appellee Windsurfing International, Inc. With him on the brief was *David R. Francescani*, Darby & Darby, of New York, New York.

Pasquale A. Razzano, Curtis, Morris & Safford, P.C., of New York, New York, was on the brief for defendant-appellee, Downwind Corporation, in appeal nos. 85-2808, 85-2836, 86-514 and 86-548, and defendant-appellant in appeal nos. 85-2808 and 85-2836.

Appealed from: United States District Court for the Southern District of New York

Judge Lasker

UNITED STATES COURT OF APPEALS

FOR THE FEDERAL CIRCUIT

Appeal Nos. 85-2808 and 85-2809

WINDSURFING INTERNATIONAL, INC.,

Appellees,

v.

AMF INCORPORATED,

Appellant.

Appeal Nos. 85-2835 and 85-2836

BIC LEISURE PRODUCTS, INC., WINDGLIDER FRED OSTERMANN, GmbH,

Appellants/Cross-Appellees,

v.

WINDSURFING INTERNATIONAL, INC.,

Appellee/Cross-Appellant.

Appeal Nos. 86-514 and 86-548

WINDSURFING INTERNATIONAL, INC.,

Cross-Appellant/Appellee,

v.

FRED OSTERMANN GmbH, AMF, INC., DOWNWIND CORP., and FREEBOARD SAILING, INC.,

Cross-Appellees/Appellants.

DECIDED: January 28, 1986

Before MARKEY, *Chief Judge,* SMITH and NEWMAN, *Circuit Judges.*

MARKEY, *Chief Judge.*

Consolidated appeal from two judgments of the United States District Court for the Southern District of New

York: (1) holding claims 15-21 of Windsurfing International's (WSI's) U. S. Patent Re. 31,167 ('167 patent) valid and infringed; (2) holding that WSI had misused the patent; (3) enjoining AMF, Inc. (AMF), BIC Leisure Products, Inc., and Windglider Fred Ostermann, GmbH (BIC); and (4) refusing to enjoin infringing defendant Downwind Corp. (Downwind). 613 F. Supp. 933, 227 USPQ 927 (S.D.N.Y. 1985). We affirm in part, reverse in part, vacate in part, and remand.

Background

(1) Proceedings in the District Court

WSI sued AMF, BIC and Downwind, alleging infringement of its '167 patent. AMF then sought a declaratory judgment that the patent is invalid for obviousness under 35 U.S.C. §103, unenforceable because of patent misuse, and not infringed. Also, AMF sought the cancellation of WSI's registrations of "WINDSURFER" and related trademarks[1] on grounds that the marks had become generic. BIC sued WSI, seeking a declaration that the '167 patent is invalid for obviousness, unenforceable, and not infringed.

Consolidating the three actions, the district court held a non-jury trial on 13 dates between November 19 and December 11, 1984, filed an opinion July 15, 1985 and entered judgments on September 11, 1985. AMF in Appeal Nos. 85-2808/2809, BIC in No. 85-2835, and Downwind in No. 86-548, appeal from the judgments holding the '167 patent valid and infringed. AMF and BIC appeal from the grant of injunctions.[2] In Appeal Nos. 85-2836 and

1. U.S. Trademark Registration Nos. 962,616, 997,974, 1,180,024, and 1,195,641. The district court held that WSI's trademarks have become generic. The district court has not yet entered judgment to that effect and the trademark issue of genericness is not part of this appeal.

2. The district court permanently enjoined AMF, but "preliminarily" enjoined BIC pending termination of a related action by Intervenor James R. Drake claiming an ownership interest in the '167 patent. *See* 223 USPQ 509 (S.D.N.Y. 1983).

86-514, WSI cross-appeals from the judgments holding it misused its patent and refusing to enjoin Downwind.

(2) The '167 Patent

The patent in suit relates to the sport of "sailboarding",[3] in which participants ride boards propelled by wind striking sails attached to the boards.

A preferred embodiment of the claimed invention is shown in Figure 1 of the '167 patent:

A participant stands on the top surface of surfboard 10 behind universal joint 36, grasps boom 16 or boom 18 (de-

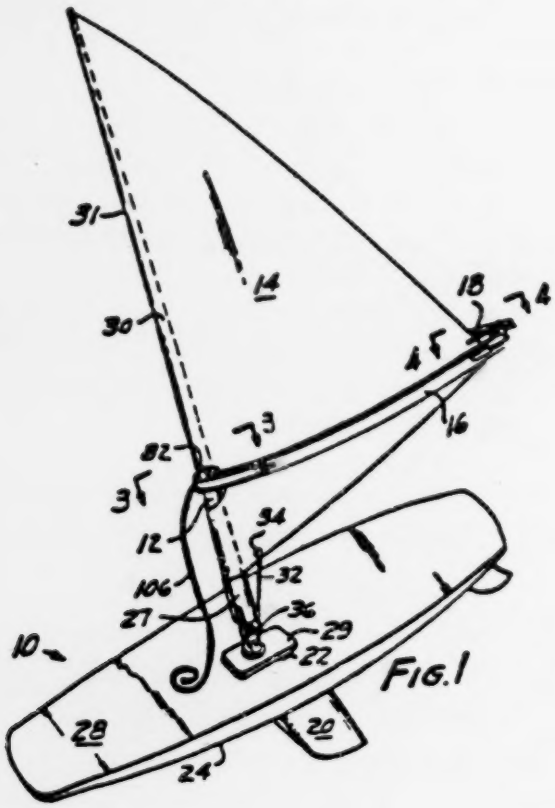

FIG. 1

3. We refer to the patented structure as a "sailboard" and not as a "windsurfer" because whether the latter term has become generic is not yet final.

pending on wind direction), and controls the speed and direction of the board by maneuvering the boom to which sail 14 is attached. If a participant begins to lose control in a sudden wind surge, he or she merely releases the boom and the universal joint allows the sail to fall freely into the water.

Claim 15 is representative:

> 1. Wind-propelled apparatus comprising body means adapted to support a user and wind-propulsion means pivotally associated with said body means and adapted to receive wind for motive power for said apparatus, said propulsion means comprising a mast, a joint for mounting said mast on said body means, a sail and means for extending said sail laterally from said mast *comprising two opposed booms secured to said mast for guiding said sail therebetween and adapted to provide a hand-hold for said user on either side of said sail while sailing,* the position of said propulsion means being controllable by said user, said propulsion means being substantially free from pivotal restraint in the absence of said user, said joint having a plurality of axes of rotation whereby said sail free falls along any of a plurality of vertical planes upon release by said user. [Emphasis added.]

The underscored limitation sets forth the boom and was added when WSI's U.S. Patent No. 3,487,800 was reissued as the '167 patent.

Issues

Did the district court err in: (1) holding the claimed invention nonobvious under 35 U.S.C. §103[4]; (2) finding

4. 35 U.S.C. §103 provides:

> A patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.

infringement; (3) holding patent misuse; (4) enjoining AMF and BIC; and (5) refusing to enjoin Downwind.

Opinion

(1) Non-obviousness

On appeal, AMF[5] argues that the district court erred in upholding the '167 patent because it: (a) improperly deferred to decisions by the U. S. Patent and Trademark Office Board of Appeals (Board); (b) compared preferred and commercial embodiments with the prior art; and (c) considered commercial success having no nexus with the claimed invention.

(a) Deference

In deferring to the Board's decisions concerning the allowance of the claims in the reissued patent, the district court was recognizing the statutory mandate that all patents are presumed valid. 35 U.S.C. §282 (1982); *see Fromson* v. *Advance Offset Plate, Inc.*, 755 F.2d 1549, 1555, 225 USPQ 26, 31 (Fed. Cir. 1985). The district court carefully considered whether the evidence not presented in the "fiercely contested adversarial proceeding" before the Board would ease AMF's burden of proving facts compelling a conclusion of invalidity.[6] 613 F. Supp. at 943-45, 227 USPQ at 935-36; *see American Hoist & Derrick Co.* v. *Sowa & Sons, Inc.*, 725 F.2d 1350, 1359-60, 220 USPQ 763, 770 (Fed. Cir.), *cert. denied*, 105 S. Ct. 95 (1984). Concluding that the evidence at trial was merely cumulative

5. Because BIC raises many of the same arguments, and Downwind relies principally on the arguments raised by BIC and AMF, this opinion hereinafter refers to the three parties collectively as AMF, unless otherwise indicated.

6. The "proceeding" referred to comprised the initial application for reissue, a protest, an appeal to the Board, a remand to the examiner, a second appeal to the Board, and an appeal to the Court of Customs and Patent Appeals. The district court described these events in its opinion. 613 F. Supp. at 942-44, 227 USPQ at 934-35.

of that before the Board, the court correctly held that that evidence did not enable AMF to carry the burden imposed by §282.

AMF contends that, because the Board did not mention the obviousness of replacing the rig, shown in a publication referred to as the "Darby reference", with the boom disclosed in the '167 patent, no deference is due the Board decisions. The district court carefully reviewed the administrative record and stated that such argument "oversimplifies the depth of the Board's review and assumes the Board ignored other issues raised in the parties' extensive briefs." 613 F. Supp. at 945, 227 USPQ at 936. We agree. Merely because a decision does not mention a particular point "forms no basis for an assumption that it did not consider those elements." *Perkin Elmer Corp.* v. *Computervision Corp.*, 732 F.2d 888, 901, 221 USPQ 669, 679 (Fed. Cir.), *cert. denied*, 105 S. Ct. 187 (1984). Moreover, the district court correctly noted that "the Board . . . reaffirmed its original holding that combination of '[t]he hand-held wishbone rigging [boom] with the vehicle swivel mast attachment produces . . . a unique sailing apparatus. . . .'" 613 F. Supp. at 945, 227 USPQ at 936. We are satisfied that the district court did not err in this case in giving "deference that is due to a qualified government agency presumed to have properly done its job." *American Hoist, supra*, 725 F.2d at 1359, 220 USPQ at 770, *see Panduit Corp.* v. *Dennison Manufacturing Co.*, 774 F.2d 1082, 1096, 227 USPQ 337, 346 (Fed. Cir. 1985).

(b) Comparison

The district court conducted a thorough *Graham*[7] analysis under §103 before concluding that the claimed invention at the time it was made would not have been obvious to one of ordinary skill in the art. AMF attacks the district court's findings as clearly erroneous, asserting it compared

7. *Graham* v. *John Deere*, 383 U.S. 1, 17-18, 148 USPQ 459, 467 (1966).

to the prior art not the claimed invention but commercial and preferred embodiments as representative of the claimed invention. *See Jackson Jordan, Inc.* v. *Plasser American Corp.*, 747 F.2d 1567, 1578, 224 USPQ 1, 9 (Fed. Cir. 1984) (claims, not embodiments, are focus of obviousness inquiry). Those embodiments include a "scoop" on a slimmer hull-shaped board, a skeg, and footstraps. Thus, they argue that the advantages found by the court are attributable to a combination of those design improvements and not to the claimed invention.

The district court did determine that it would have been obvious to replace a kite sail with a fore and aft sail, and to add a second opposed boom.[8] Properly looking to the claimed invention at the time it was made as a whole, as required by §103, the district court correctly concluded that "the combination of the hand-held wishbone rigging with the universal joint produced a vehicle that performs in a manner previously undisclosed by any of the prior art references before us and, indeed, a vehicle with a performance potential that is even now not yet fully realized." 613 F. Supp. at 948, 227 USPQ at 938.

WSI's expert, Dr. Bradfield, conceded that certain advantages were due to particular added improvements, but he consistently maintained that the overall performance capabilities of the claimed invention were mainly due to the combination of the universal joint and the wishbone rigging. The district court found that testimony credible and AMF has shown no basis on which this court could engage in the normally inappropriate process of substituting a contrary credibility determination for that of the district court.

8. Contrary to BIC and Downwind's contentions, a conclusion that it would have been obvious to replace the sails and add a boom does not require a conclusion that the claimed invention considered as a whole would have been obvious. The claims include more, e.g., a universal joint and its relationship to board, mast, boom, and sail.

(c) Nexus

Before concluding that the combination of the universal joint with the wishbone rigging would not have been obvious, the district court reviewed the objective evidence, *Stratoflex, Inc.* v. *Aeroquip Corp.*, 713 F.2d 1530, 1538, 218 USPQ 871, 879 (Fed. Cir. 1983), and correctly sought a nexus between WSI's commercial success and the merits of the claimed invention. *Cable Electric Prods.* v. *Genmark, Inc.*, 770 F.2d 1015, 1026, 226 USPQ 881, 887 (Fed. Cir. 1985).

In essence, AMF says that the commercial success found by the district court was due in large part to "other economic and commercial factors unrelated to the technical quality of the patented subject matter." *Id.* at 1027, 226 USPQ at 888. Particularly, AMF argues that the great commercial success found by the district court was due to: (1) sales of accessories amounting to 10-15 percent of the gross receipts; (2) an extensive advertising campaign and European promotional effort; and (3) more efficient manufacturing and design changes. They argue that WSI s commercial success is of little probative value because it occurred so many years after the date of invention and was not the result of providing any solution to some existing problem or longfelt want.

Having carefully reviewed the record before us, we conclude that the district court did not impermissibly credit the evidence of commercial success. It specifically found that WSI's commercial success should not be "significantly diminished" by testimony that 10-15 percent of gross receipts are from paraphernalia. 613 F. Supp. at 948 n.84, 227 USPQ at 938 n.84. The court accorded some weight to motivational factors leading to German licenses, but concluded that "widespread recognition and use of the invention" indicated that it would not have been obvious. *Id.* at 949, 227 USPQ at 938-39. The commercial success of the invention was found to have been "well

beyond the effect" of WSI's promotional efforts. *Id.*, 227 USPQ at 939.

Absent some intervening event to which success must be attributed, the delay in achieving the great commercial success of the claimed invention in this case does not detract from the probative value of the evidnce of that success. Similarly, AMF's suggestion that objective evidence of non-obviousness can be considered only when the invention solves a long-existing problem is unwarranted. Providing a solution to a long existing problem is but one type of objective evidence useful in making obviousness/non-obviousness determinations. *See Leinoff* v. *Louis Milona & Sons, Inc.*, 726 F.2d 734, 740, 220 USPQ 845, 849 (Fed. Cir. 1984). Further, the district court correctly noted that copying the claimed invention, rather than one within the public domain, is indicative of non-obviousness. 613 F. Supp. at 949, 227 USPQ at 939; *see Panduit Corp., supra*, 774 F.2d at 1099-1100, 227 USPQ at 348-49.

Having carefully considered AMF's arguments and the evidence relied upon by the district court, we conclude that AMF has not discharged its burden on appeal, i.e., of persuading us that the district court committed reversible legal error in its determination that the invention would not have been obvious, or that the court's probative findings underlying that determination were clearly erroneous. *See Atlas Powder Co.* v. *E. I. DuPont De Nemours*, 750 F.2d 1569, 1573, 224 USPQ 409, 411 (Fed. Cir. 1984). Accordingly, the presumptive validity of the '167 patent remains unscathed and the judgment upholding claims 15-21 of the '167 patent is affirmed.

(2) Infringement

Downwind alone appeals from the judgment of infringement, urging that its structure does not have a "joint having a plurality of axes of rotation." Downwind employs a flexible rubber tube or rod connecting the mast and the board.

Claim interpretation is a question of law, *McGill, Inc.* v. *John Zink Co.*, 736 F.2d 666, 221 USPQ 944, 948 (Fed. Cir.), *cert. denied*, 105 S. Ct. 514 (1985), but we have been shown no basis for upsetting the district court's interpretation of the claims as covering a structure that permits the mast to pivot with respect to and about a number of axes. Downwind's contention that a flexible rubber tube is not "mechanical", and does not rotate, and thus is not a "joint" within the meaning of the claims, is without merit. The word "mechanical" does not appear in the claims, the twisting of the flexible tube is about an axis of rotation, and the tube forms a joint between the mast and board.

Whether Downwind's accused device infringes the claims as interpreted is a fact question, *Raytheon Co.* v. *Roper* Corp., 724 F.2d 951, 961, 220 USPQ 592, 600 (Fed. Cir. 1983), *cert. denied*, 105 S. Ct. 127 (1984), and a finding on that question will not be upset unless clearly erroneous. *Carmen Industries, Inc.* v. *Wahl*, 724 F.2d 932, 941, 220 USPQ 481, 488 (Fed. Cir. 1983). None of the accused infringers has attempted to rebut the testimony on which the district court relied in finding infringement. Downwind has not shown that the claims must be given its own unduly narrow interpretation or that the district court's finding of infringement was clearly erroneous. Accordingly, the judgment of infringement is affirmed.

(3) Patent Misuse

AMF's allegation of patent misuse is based on this paragraph included in license agreements between WSI and eleven licensees:

> 10. *Trademarks*
>
> LICENSEE hereby acknowledges that the terms "WINDSURFER", "WINDSURFING", and "WIND SURF" and the logo which is attached hereto as Exhibit 3 are all valid trademarks. LICENSEE hereby agrees not to use any of the trademarks identified in

> this paragraph 10 in any form or fashion in its company name or any of its literature or advertising or promotional material or on any products whatsoever.

The district court said that whether that provision gives rise to a patent misuse defense depends on whether the registered trademarks are generic. Having found the marks generic, the court concluded "that Paragraph 10 has an intrinsically inhibiting effect on competition beyond the scope of the patent. . . ." 613 F. Supp. at 953, 227 USPQ at 942.

The Court went on to determine that the "level of misuse" did not warrant rendering the patent entirely unenforceable because the court found the "record insufficient to determine fairly the extent to which WSI sought to enforce the provision and the extent of any monetary gain to it" and also found the record insufficient to support a finding that "WSI necessarily would or should have known that its marks had become a common descriptive name for the product." *Id.*

The court set the damages issue for determination at a later time, deferred until that time "the resolution as to what relief, if any, WSI's misuse of its patent privilege warrants," and decided to enforce the '167 patent. *Id.*

In its cross-appeals, WSI contends that a mere inclusion in a patent license agreement of a promise not to infringe a licensor's trademark does not constitute patent misuse. Acts constituting misuse, says WSI, must be "coercive" toward an improper advantage. WSI argues that it was merely asserting rights it possessed under the trademark laws and, thus, the patent misuse defense should fall.

The doctrine of patent misuse is an affirmative defense to a suit for patent infringement, *see Bio-Rad Laboratories, Inc.* v. *Nicolet Instrument Corp.*, 739 F.2d 604, 617, 222 USPQ 654, 664 (Fed. Cir.), *cert. denied,* 105 S. Ct. 516 (1984), and requires that the alleged infringer show that the patentee has impermissibly broadened the "physical or temporal scope" of the patent grant with anticom-

petitive effect. *Blonder-Tongue Laboratories, Inc.* v. *University of Illinois Foundation*, 402 U.S. 313, 343, 169 USPQ 513, 525 (1971). We have been cited to no authority, and are aware of none, for the proposition that patent misuse may be found on the basis of a patent license agreement provision recognizing and forbidding use of the licensor's validly registered trademarks.

To sustain a misuse defense involving a licensing arrangement not held to have been per se anticompetitive by the Supreme Court,[9] a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market. A provision in a patent license agreement requiring the licensee to acknowledge the validity of registered trademarks, and to avoid their use, cannot possibly restrain competition unlawfully in an appropriately defined relevant market. The license agreement provision merely asserted and recognized WSI's rights derived from the trademark laws. The assertion of trademark rights can have procompetitive effects, *see generally*, 1 J.T. McCarthy, *Trademarks and Unfair Competition* §2.1, at 44-49 (2d ed. 1984), and thus under only the most rare of circumstances could such assertion, separately or as a provision in a patent license agreement, form in itself the basis for a holding of inequitable conduct such as that labeled "patent misuse". It is not an uncommon precaution when licensing a product sold by the licensor under a trademark to prohibit

9. Recent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive. *See, e.g., USM Corp.* v. *SPS Technologies, Inc.*, 694 F.2d 504, 510-14, 216 USPQ 959, 963-66 (7th Cir. 1982), *cert. denied*, 462 U.S. 107 (1983); *Competition Policy and the Patent Misuse Doctrine*, Remarks by Roger B. Andewelt, Chief, Intellectual Property Section, Antitrust Division, Department of Justice, Before the Bar Association for the District of Columbia, Patent, Trademark & Copyright Section, 25 Pat. Trademark & Copyright J. (BNA) No. 604 at 41, 44-45 (Nov. 11, 1982); *cf. Continental TV, Inc.* v. *GTE Sylvania, Inc.*, 433 U.S. 36 (1977) (changing the per se prohibition on vertical restrictions to a rule of reason approach).

the licensee from using the licensor's trademark on the licensee's product. That is but a matter of business prudence and in no manner misuses the patent right.

That the marks were found generic after trial and long after execution of the license cannot of itself prevent a full enforcement of the '167 patent. Trademark registrations enjoy a statutory presumption of validity. 15 U.S.C. §1057 (b) (1982). As the district court found, AMF failed to show that WSI granted the licenses or enforced its rights in the marks with knowledge that they were or had become a common descriptive name, and AMF failed to show that WSI should have had that knowledge. On the present record, the district court was improperly persuaded to rest its holding of misuse entirely on an after-the-fact determination that the marks are generic. Because that was error, the holding that the facts of record established a misuse of the patent right must be reversed.[10]

(4) Injunctions

The statute, 35 U.S.C. §283, empowers district courts to "grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." The statute makes clear that the district court's grant or denial of an injunction is within its discretion depending on the facts of each case. *Roche Products, Inc.* v. *Bolar Pharmaceutical Co.*, 733 F.2d 858, 865-66, 221 USPQ 937, 942-43, (Fed. Cir.), *cert. denied,* 105 S. Ct. 183 (1984). Hence, the district court's grant or denial of an injunction is reviewed under an abuse of discretion standard. *See Trans-World Manufacturing Corp.* v. *Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1564, 224 USPQ 259, 266 (Fed. Cir. 1984).

The holding of misuse having been reversed, we need not address AMF's contention that the district court should not have enjoined further infringement of the '167 patent in light of that holding.

10. We need not, in view of our determination, discuss the patries' contentions respecting the purging of misuse.

AMF argues that the district court improperly ignored its intervening rights, a defense it contends was raised in the pleadings and at the injunction hearing, citing *Seattle Box Co.* v. *Industrial Crating & Packing, Inc.*, 756 F.2d 1574, 1579, 225 USPQ 357, 361 (Fed. Cir. 1985). *See* 35 U.S.C. §252 (1982).[11] AMF made no mention of its intervening rights defense at the trial.

Nothing in *Seattle Box* addresses the point at which the intervening rights defense must be raised to preserve it. Intervening rights, however, is "an affirmative defense . . . that must be raised at trial." *Underwater Devices, Inc.* v. *Morrison-Knudsen Co.*, 717 F.2d 1380, 1388, 219 USPQ 569, 575 (Fed. Cir. 1983); *see* 35 U.S.C. §282. That AMF pleaded the defense is insufficient. That it failed to make any attempt to prove the defense at trial is in this case fatal. AMF cannot be held to have resuscitated the defense by the mere submission of affidavits at a post-trial hearing. To so hold would run counter to the finality attaching to trials. District courts are under no obligation to consider a defense abandoned at trial. Accordingly, no abuse of discretion having been shown, we affirm the district court's grant of injunctive relief against AMF and BIC.

On its cross-appeal, WSI urges that the district court abused its discretion in refusing to enjoin Downwind. In denying injunctive relief against Downwind, the district court stated from the bench:

> I am prepared to say at the present time that I do not believe that an injunction against Downwind is appropriate. As bad as Windsurfing's problems I am prepared to believe may be, I do not believe that enjoining Downwind, which is such a small operation, would solve their problems, not that I think an injunction's purpose is simply to solve its problems; and so I mention that because I don't think you need to argue further on that.

11. BIC has not raised an intervening rights defense.

The relative size of multiple infringers should not alone serve as a basis for enjoining continued infringement by some and not others.[12] The district court articulated no other basis for denying injunctive relief against Downwind. On the present record, therefore, we must conclude that the district court abused its discretion in refusing to enjoin Downwind. Accordingly, we remand the case to the district court to reconsider WSI's request for an appropriate injunction against Downwind.

CONCLUSION

The judgment of the district court upholding the validity of claims 15-21 of the '167 patent and finding them infringed, and the grant of injunctions against AMF and BIC are affirmed. The judgment that WSI is guilty of patent misuse is reversed. The case is remanded with instructions to vacate the order denying an injunction against Downwind and to reconsider WSI's request for that injunction.

AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED

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12. Downwind said its infringing sales were between 1,000 and 2,000 sailboards a year since it began operations in 1981. AMF was selling about 1,800 sailboards a year during the same four-year period. That sailboards are Downwind's primary product, and that an injunction might therefore put Downwind out of business, cannot justify denial of that injunction. One who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected. The district court, recognizing the absence of bad faith on the part of all parties, weighed the effect of its orders on each. In so doing it indicated that WSI's entire business was built on sailboards and accessories, and thus that Downwind and WSI were in the same boat. Under those circumstances, no warrant appears on this record for denying the requested injunction against continued infringement by Downwind.

APPENDIX B

APPENDIX B

Competition Policy and the Patent Misuse Doctrine

Remarks by
Roger B. Andewelt, Chief
Intellectual Property Section
Antitrust Division

Before the

Bar Association for the District of Columbia
Patent, Trademark, and Copyright Section
Washington, D.C.
November 3, 1982

During the past year, Antitrust Division representatives, including myself, have made a series of speeches in which we have discussed the patent antitrust interface.[1] The general theme of these speeches has been that analysis of issues at the interface frequently has been economically misguided and that the resulting confusion has impaired competition in the marketplace.

In these speeches, we have rejected the notion that the patent grant is irreconcilable with the philosophy behind the antitrust laws; we have explained that the two sets of laws are complementary—they are each directed at optimizing economic conditions for the benefit of this country's consumers. We have stressed that the availability of a patent grant can enhance competition; it increases the incentives for firms to develop and market new competing products and to develop new and more efficient means of producing existing products, and it results in firms disclosing inventions that otherwise would not be disclosed.

1. *See, e.g.*, "Current Antitrust Division Views on Patent Licensing Practices," Remarks Of Abbott B. Lipsky, Jr., Deputy Assistant Attorney General, Antitrust Division, before the American Bar Association Antitrust Section (Nov. 5, 1981); "Basic Principles to Apply at the Patent-Antitrust Interface," Remarks by Roger B. Andewelt, Chief, Intellectual Property Section, Antitrust Division, before the Houston Patent Law Association (Dec. 3, 1981).

Similarly, we have explained that exploitation of patents by licensing can have analogous procompetitive benefits. It can permit licensees to create new competitive products and to manufacture existing products at cheaper costs. Moreover, the opportunity to exploit patents through licensing will increase the perceived rewards from investing in R&D and thereby should result in increased R&D investment and increased discoveries of patentable inventions.

Next, we have noted that since a patent is one of numerous inputs that can be used in the manufacture and marketing of a product, patent licensing often properly can be viewed as a vertical arrangement. In view of the vertical nature of the patent license and the potential procompetitive effects involved, we have stressed that *per se* treatment of patent licenses under the antitrust laws generally is not appropriate. In this regard, we have criticized as analytically unsound and economically counterproductive, the Antitrust Division's contention in the mid-1970's that any patent license that contains any one of nine specified provisions should be deemed *per se* illegal under Section 1 of the Sherman Act. We took an economic look at each of these allegedly *per se* illegal provisions and concluded that in certain not uncommon fact situations, each provision could be an appropriate part of a procompetitive licensing arrangement.

On the other hand, we have recognized that a patent license can be anticompetitive when its effect is to decrease the incentive of the licensor or licensee to compete through innovation or otherwise, or when it in some other way facilitates collusion in the market. Therefore, we rejected the notion advocated by some that restrictions in patent licenses relating to use of a patented product are *per se* legal.

Based on this analysis, we have concluded that patent licenses generally should be evaluated under the rule of reason. In such an analysis, a factual determination should be made as to the effect of the license on competition in

appropriately defined economic markets, and the license should be condemned only where on balance it significantly restrains competition in such a market.

If I were to try to give a capsule summary of these recent speeches by Antitrust Division representatives, I would say that they have been an attempt to bring economic rationality to the patent antitrust area by proffering three interrelated basic economic notions. First, the existing patent grant should not be viewed as a threat to our free enterprise system, but rather as an important part of it. Second, exploitation of market power lawfully obtained through patents should be treated no differently than exploitation of market power derived through any other lawful means such as superior management or superior product distribution; such exploitation should be proscribed only when it functions anticompetitively. Third, the determination of when a particular licensing arrangement has anticompetitive effects can be complex and typically should not be handled under a *per se* doctrine; instead, the determination should be fact-specific with the inquiry focusing on the terms of the arrangement and the structure of the economic markets affected.

However, even if these three notions were immediately adopted and the confusion at the patent antitrust interface was cleared up, this in itself would not assure that patent owners would legally be free to license their patents in economically beneficial ways. The reason is that liability under the antitrust laws is not the sole legal deterrent that a patent owner must consider when evaluating a potential licensing arrangement. The patent owner also must consider the currently unrelated doctrine of patent misuse.

Patent misuse is a judicially created doctrine founded in the courts' equitable powers. It has evolved separately from the antitrust laws, but like those laws, it is used to attack patent licensing practices which are claimed to be undesirable from a public policy standpoint.

The sanctions for misusing a patent is harsh; the patent is unenforceable against anyone until the misuse has been

eliminated and its effects on the market-place have been purged. Therefore, patent owners can be expected to avoid entering into patent licenses that may amount to patent misuse. If our aim is to assure that courts do not interfere mistakenly with procompetitive patent licensing, it is not sufficient to focus only on the soundness of antitrust enforcement; it also is necessary to assure that the misuse doctrine is applied in a manner consistent with sound economic principles.

Unfortunately, much of the criticism that I have previously noted and summarized today concerning misguided economic analysis at the patent-antitrust interface is equally applicable to certain applications of the patent misuse doctrine. Patent misuse frequently has been applied in a manner inconsistent with the three basic economic notions for treatment of patents that I mentioned earlier. Misuse cases have exhibited an improper and economically damaging hostility to market power resulting form patents; patent misuse has been applied as a *per se* doctrine prohibiting conduct which careful economic analysis demonstrates is not necessarily anticompetitive and, in fact, often is procompetitive. The proper solution is analogous to the approach taken by the Supreme Court when in *Continental TV*[2] it abandoned the *per se* rule of *Schwinn*;[3] we should reject improper *per se* misuse rules and prohibit conduct on economic grounds only when economic analysis demonstrates the conduct to be anticompetitive. Since the antitrust laws are the appropriate vehicle for evaluating competitive effect, conduct should not be condemned as patent misuse on economic grounds unless the conduct is inconsistent with the antitrust laws.

I think the best way to understand the perceived basis for and the current application of the misuse doctrine is to

2. Continental TV, Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977), on remand, 461 F. Supp. 1046 (N.D. Cal. 1978), aff'd, 1982-2 CCH Trade Cases ¶64,962 (9th Cir. 1982).

3. United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967).

study the history surrounding the birth of the doctrine and the doctrine's subsequent development. It makes sense to start by spending a few minutes focusing on relevant early case law.

During the 1800's and early 1900's, the courts frequently considered the metes and bounds of the patent grant. Not surprisingly, in these early decisions the courts gave great weight to the patent owner's exclusive rights to make, use, and sell the patented inventions and to the terms of the contracts involved when the patent owner relinquished those rights. The courts frequently rejected arguments that public policy demanded that the courts in some way alter the agreement between the parties, as sometimes is done under the patent misuse doctrine. Thus, when a patent owner unconditionally sold or licensed a patented product, the courts did not permit him thereafter to rely upon the patent to control a purchaser's use of the patented products because no such condition had accompanied the sale or license.[4] On the other hand, the courts permitted such control where the sale or license was made subject to such conditions; the licensor could sue its licensee for patent infringement when the licensee used the patented invention in a manner inconsistent with the conditions of the license. The two most interesting and most important of the early cases enforcing such conditional sales and licenses are the *Button Fastener*[5] and *Henry v. A.B. Dick Co.* cases.[6] I commend their reading to each of you, especially the *Button Fastener* decision.

In *Button Fastener,* the patent covered a very successful machine for fastening buttons on shoes using unpatented staples. The patent owner sold the patented machines but through a label on the machine conditioned the sale on the

4. *See, e.g.,* Mitchell v. Hawley, 83 U.S. 544, 16 Wall. 544 (1872); Bloomer v. McQuewan, 55 U.S. 326, 14 How. 539 (1852).

5. Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co., 77 F. 288 (6th Cir. 1896).

6. 224 U.S. 1 (1912), overruled, Motion Picture Patents Co. v. Universal Film Manufacturing Co., 243 U.S. 502 (1917).

buyer purchasing the necessary staples from the patent owner. The patent owner brought a contributory infringement action against an independent staple manufacturer who sold staples to these buyers for use with the patented machine. The defendant alleged that the condition of sale should be voided because the "public policy in respect of monopolies and contracts in restraint of trade" forbids a patent owner from using a monopoly in the machines to create a monopoly in the unpatented staples.[7]

The Court of Appeals for the Sixth Circuit agreed that public policy should control and, after undertaking an economic analysis, concluded that enforcement of the condition represented sound public policy. The court indicated that if the patent had resulted in an inherently cheaper means of manufacturing shoes, the patent owner could have refused to license, practiced the patent himself, and thereby obtained a monopoly in the sale of unpatented shoes. This conduct would have destroyed the shoe market for all who had previously participated, but it nevertheless would have been legitimate because any such conduct "could endure so long only as shoes were supplied at a less price than had prevailed before the invention." The court reasoned that since the patent owner could legitimately monopolize the sale of unpatented shoes, it could hardly be deemed anticompetitive for the patent owner instead to license other shoe manufacturers on the condition that they purchase fasteners from him.[8]

The court indicated that the same basic principles of analysis should apply on the facts of the *Button Fastener* case, even though the patented machine was not so great a leap forward as to enable the patent owner to control all shoe manufacturing. The patent owner had chosen to achieve some of the value of his patented invention through the sale of staples. The staples were merely the "counters by which the royalty proportioned to the actual use of the

7. *Id.* at 292.

8. *Id.* at 295.

machine is determined." Any control that the patent owner achieved over the sale of staples was "incident from" and "a legitimate result of" the patent owner's control over the patented machine. The amount of staple sales the patent owner controlled would depend on the merits of the patented machine, and the control would exist only so long as the patented machine was not superseded by other means of fastening buttons on shoes. For these reasons, the court found the conditional license "neither obnoxious to public policy, nor an illegal restraint of trade."[9]

Sixteen years later, the Supreme Court came to the same basic conclusion in *Henry v. A.B. Dick.* The patent covered a mimeograph machine and the patent owner sold the machines on the condition that the unpatented paper and ink used in the patented machines would be purchased from the patent owner.[10] The Supreme Court indicated that the patent reward should be treated favorably because it promotes broad public policies by encouraging the act of invention.[11] The Court concluded that the licensee had not been harmed by the terms of the license. The patent owner merely had chosen to take his profit through the sale of accessories rather than by charging a higher price for the machines.[12] If the patent owner's price for paper and ink were too high and not in keeping with the benefits of the patented mimeograph machine, mimeographers simply could stop purchasing or cease using the patented machine.[13] The Court rejected the motion that the condition had the effect of creating a monopoly in unpatented

9. *Id.* at 296.

10. 224 U.S. 1 (1912). Interestingly, the decision in *A.B. Dick* was written by Justice Lurton who had also written the *Button Fastener* decision while a member of the Court of Appeals for the Sixth Circuit.

11. *Id.* at 27.

12. *Id.* at 32.

13. *Id.* at 34.

paper and ink or of making these products patented. The Court indicated that everyone remained free to manufacture and sell these products for all uses except for use with the patented machine. Finally, the Court warned that the patent owner's right to exclude others from using a patented invention is statutory in nature and constitutionally based and that if a limit were to be put on this right to exclude, it should be done in a legislative forum and not a judicial one.[14]

Five years later, however, in the *Motion Picture Patents* case,[15] the Supreme Court overruled *A.B. Dick* and thereby gave birth to the misuse doctrine. The patent covered a film feeder used in a motion picture projector. The patent owner had sought to condition a license under the patent on the licensee agreeing to show only motion pictures leased from persons authorized by the patent owner. The patented film feeder was so revolutionary that projectors using it quickly displaced prior projectors, and the patent owners thus held a dominant position in the field. The Court of Appeals for the Second Circuit had ruled that the patent owner's conduct violated Section 3 of the Clayton Act, 15 US.C §14, which had been enacted since the Supreme Court's decision in *A.B. Dick*. Section 3 forbids the lease or sale of products, on the condition that the lessee or purchaser not use or deal in the goods of any competitor of the lessor or seller "where the effect of such [transaction] . . . may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

On appeal, the Supreme Court did not reach the issue of whether the conduct involved violated Section 3 of the Clayton Act. The Court affirmed instead on the grounds that public policy demanded voiding such a condition in a license regardless of whether it violated Section 3. However, the Supreme Court did rely on enactment of Section

14. *Id.* at 35.

15. Motion Picture Patents Co. v. Universal Film Manufacturing Co., 243 U.S. 502 (1917).

3 as the signal of legislative condemnation of the general conduct involved—the signal that the Court had found lacking in *A.B. Dick.*

Consistent with the approach taken in *Button Fastener,* the Supreme Court concluded that the lawfulness of a conditional patent license is determined under the general law, not the patent law. However, the courts in *Button Fastener* and *A.B. Dick,* the Court found the conditional license violative of the general law because by imposing the condition, the patent owner sought to control unpatented products outside the scope of the patent claims. The patent owner's reward for inventive genius, the Court said, should be measured by his contribution to the public stock of knowledge. If his discovery is important, his reward will be large, but if it is unimportant, "he should not be permitted by legal devices to impose an unjust charge upon the public."[16] To enforce the restriction, the Court reasoned, would be to create a "monopoly" in the unpatented motion picture film industry, thus in effect giving the patent owner the power to fix the price of the film. Moreover, the patent owner would be in a position by varying his royalty charge to "ruin anyone unfortunate enough to be dependent upon" the patent.[17]

The Supreme Court criticized the *Button Fastener* decision as being based on the argument that because a patent

16. *Id.* at 513.

17. *Id.* at 515. In reaching this later conclusion, the Court also was referring to another condition that accompanied the projectors: the patent owner reserved the right in the future to impose "other terms" on projector users. The patent owner used this restriction to impose a further charge based upon the size of the theater in which the projector was used. The Court ruled that this restriction was "plainly void" because it would be "gravely injurious to [the] public interest." The Court said that the film industry "must be recognized as an important element in the amusement life of the nation" and that the licensing scheme would give the patent owner "a potential power for evil over [the] . . . industry." *Id.* at 519. In addition, "cost, inconvenience and annoyance to the public" would result if machines, the use of which was subject to future discretionary decisions of the patent owner, were in channels of trade. *Id.* at 516.

owner can withhold its patent altogether from public use, he must logically and necessarily be permitted to impose upon use of the product any conditions he chooses. The Court rejected the argument that the arrangement benefitted the public by making the patented machine available at cost and, hence, available to more purchasers. The Court indicated that, in fact, this argument tended to buttress the Court's decision because it showed that the patent owner intended to derive his profit from unpatented supplies which are wholly outside the scope of the patent monopoly.

In refusing to enforce a presumably valid patent against an infringer based on such public policy grounds, the Supreme Court in effect gave its stamp of approval to what has eventually became known as the patent misuse doctrine.

Courts gradually but continually expanded the misuse doctrine. They found patent misuse so clearly contrary to public policy that the misuse defense was made available to individuals who knowingly infringed a valid patent and who were neither parties to the contract that constituted misuse nor even affected by the particular misuse.[18] Two basic lines of patent misuse cases arose. The primary line involved alleged efforts to use the patent to control commerce outside the scope of the patent claims. Relying essentially upon the rationale in *Motion Picture Patents,* the courts concluded that it was patent misuse for the patent owner to require the licensee to purchase unpatented products from a particular source (tie-in),[19] require the licensee to refrain from dealing in products that compete with the patented product (tie-out or exclusive dealing),[20]

18. *See, e.g., Morton Salt Co. v. G. S. Suppiger Co.,* 314 U.S. 488, rehearing denied, 315 U.S. 826 (1942).

19. *See, e.g., Morton Salt Co., supra* n.18; Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661, rehearing denied, 321 U.S. 802 (1944); Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U.S. 680, rehearing denied, 331 U.S. 802 (1944).

20. National Lockwasher Co. v. George K. Garrett Co., Inc., 137 F.2d 255 (3d Cir. 1943); McCullough v. Kammerer Corp., 166 F.2d 759 (9th Cir.), cert. denied, 335 U.S. 813 (1948).

require the licensee that wanted a license only under one patent to also take a license under a group of additional patents (compulsory package licensing),[21] or require the licensee to pay royalties under the patent based in whole or part on the sales of an unpatented product (total sales royalties).[22]

The second line of misuse cases involved the decisions of the patent owner as to whether or not to license a particular party and, if so, at what royalty. Relying apparently on the *Motion Picture Patents* rationale that public policy frowned on the patent owner "ruining anyone unfortunate enough to be dependent upon the patent," the courts have found misuse where the patent owner licensed one licensee at a rate different than the rate charged other licensees,[23] refused to license a patent which it licensed to others,[24] and even where the patent owner charged rates that were deemed exorbitant and oppressive.[25]

However, while the scope of the patent misuse doctrine expanded, the basic analysis of why the acts said to constitute misuse were contrary to public policy did not change significantly from the rationale enunciated in *Motion Picture Patents.* With respect to the first line of misuse cases involving use of the patent to affect commerce outside the scope of the patent, the courts either relied on *Motion Picture Patents* and its progeny for the notion that the conduct was competitively harmful, or simply assumed that

21. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, on remand, 418 F.2d 21 (7th Cir. 1969), reversed, 401 U.S. 321, rehearing denied, 401 U.S. 1015 (1971).

22. *Id.*

23. The Laitram Corp. v. King Crab Inc., 244 F. Supp. 9, modification denied, 245 F. Supp. 1019 (D. Alaska 1965).

24. Allied Research Products, Inc. v. Heatbath Corp., 300 F. Supp. 656 (N.D. Ill. 1969).

25. American Photocopy Equipment Co. v. Rovico, Inc., 359 F.2d 745 (7th Cir. 1966).

the effect of such conduct necessarily was anticompetitive.[26] I submit, however, that the approach taken in these cases is economically unsound and, in fact, is inconsistent both with the basic economic principles for proper treatment of patents that I summarized earlier and with the guidance for economic analysis that the Supreme Court enunciated in *Continental TV*.

The effect of these cases is to treat market power derived from patents more harshly than market power derived from other lawful means. Courts do not interfere on economic grounds with the exploitation of other forms of market power unless such exploitation is inconsistent with the antitrust laws or other applicable legislation. However, the misuse doctrine provides sanctions against and thereby deters conduct regardless of whether it is inconsistent with any of these statutes.[27] The cases provide no satisfactory explanation as to why the public would benefit from such harsher treatment for market power derived through patents.

Next, and more importantly, these cases misjudge the public interest by creating what amounts to a *per se* prohibition on the patent owner conditioning a patent license in certain ways which affect commerce outside the scope of the patent monopoly. Indeed, certain of the conduct that has been classified as misuse is the very same conduct involved in the nine "no-no's" of patent licensing that the

26. Indeed, in 1943 in *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.*, 320 U.S. at 684. Justice Douglas speaking for the majority indicated that "[t]he legality of any attempt to being unpatented goods within the protection of the patent is measured by the anti-trust laws not by the present law" and proceeded without any economic analysis to conclude that the antitrust laws were "plainly" violated by a patent owner's effort to use the patent to control competition in an unpatented device which was part of a patented machine and useful only in that manner.

27. *See, e.g.*, Morton Salt Co. v. Suppiger Co., 314 U.S. 494 (1942). "It is unnecessary to decide whether respondent has violated the Clayton Act, for we conclude that in any event the [conditional license] . . . is contrary to public policy."

Division concluded does not warrant *per se* antitrust prohibition because of a very real potential for procompetitive effects. The potential procompetitive benefits of tie-ins, tie-outs, mandatory package licensing, and basing royalties on other than the licensee's sale of the patented product were summarized in a speech given by Deputy Assistant Attorney General Abbott B. Lipsky, Jr. in November of last year.[28] A *per se* prohibition of such licenses under the misuse doctrine therefore is inconsistent with the public interest because it simply will serve to rob the public of these potential procompetitive benefits.

While I do not intend to repeat here our previous explanations of why these provisions can be procompetitive, I think a couple of related comments concerning the case law I have discussed may be helpful.

First, the Supreme Court in *Motion Picture Patents* reaches a fundamentally different conclusion than the courts in *Button Fastener* and *A. B. Dick* concerning what advantages a patentee may obtain by use of a conditional sale or license that affects commerce outside the scope of the patent claims. In *Motion Picture Patents,* the Supreme Court concluded that these "legal devices" can be used "to obtain an unjust charge on the public" since the patentee can obtain high royalties for unimportant patents. In *Button Fastener* and *A. B. Dick,* the courts concluded, in effect, that no such "unjust charge" is possible because a patentee cannot be forced to pay more for such a conditional sale or license than the licensee concludes the combination of the patented machine and the unpatented accessories are worth. It appears that the approach of the courts in *Button Fastener* and *A. B. Dick* on this point are correct.

If the terms of the conditional sale or license are unsatisfactory, the licensee simply can refuse to enter into the conditional transaction. In such a case, the licensee has the choice of not engaging in the relevant business or

28. *See,* n.1., *supra.*

of engaging in the business by using existing reasonable substitutes tc accomplish the same result as the patented machine and the accessories. Indeed, sellers of substitutes for the patented machine and tied accessories compete with the patent owner since the prices they charge affect the purchasers' ultimate decision as to whether to enter a conditional purchase or license of the patented machine. Moreover, the less significant the patented advance is, the more likely it is that existing products will be reasonable substitutes for the patented machine and accessories. Therefore, it is difficult to conceive of a situation where a businessman seeking to make as much profit as possible will be forced to pay exorbitant royalties for unimportant inventions by a patentee's use of the type of conditional sale or license that I have been discussing.

Second, it is undisputedly a major concern of the antitrust laws that private agreements do not result in artificially restricted output of any particular product. However, the agreements involved in *Button Fastener* and *A.B. Dick* had the potential to bring consumer benefit by increasing output of the patented machine involved. In these cases the patent owners sought to sell the patented machines at cost and obtain profit through sale of unpatented accessories used with the machines. In each case, the procedure enabled some low volume users of the patented machine to purchase the machine and the unpatented accessory at a lower total price than would have resulted if the patentee sold the machine at a single sales price which included all of the profit the patent owner was going to obtain as a result of the patent. It is possible that some of those low volume users may not have purchased the machine at the higher price. Since any potential increase in output could be beneficial, it is not sound, absent additional facts, to conclude that the patent owners' efforts in *Button Fastener* and *A. B. Dick* to derive their profit through sale of unpatented products was necessarily inconsistent with sound public policy.

Third, the Supreme Court was correct in *Motion Picture Patents* when it concluded that a patent owner's ability to withhold a patent from the public does not mean that the patent owner is free to impose any condition on its use. However, this does not mean that any particular condition employed by the patent owner that affects competition in products outside the scope of the patent is necessarily anticompetitive or otherwise undesirable from a public policy viewpoint.

I want to stress that I am not suggesting that conditional licenses or sales of patented products such as involved in *Motion Picture Patents* cannot have anticompetitive effects. Rather, my essential point is that the competitive process is complex, and conduct that at first blush appears to be anticompetitive may after detailed economic analysis turn out to be procompetitive. It is only by going through a proper antitrust analysis that a determination can be made as to whether on balance the conduct is procompetitive or anticompetive. Indeed, in recognition of this basic point, the Supreme Court in *Continental TV* reversed its *per se* treatment of nonprice vertical restrains, holding that "[d]eparture from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing."[29]

The notion that affecting commerce outside the scope of the patent is *per se* contrary to public policy is precisely the type of formalistic line drawing that should not survive *Continental TV*. The fact that a license affects competition outside the scope of the patent says nothing determinative about the net competitive effect of the license.[30]

29. 433 U.S. at 58-59.

30. Even with respect to tying, which has been classified as *per se* unlawful under existing antitrust precedent, the antitrust laws are violated only if it is demonstrated that the defendant has market power in the tying product and that a not insignificant amount of commerce in the tied product is affected. *See, e.g.,* United States Steel v. Fortner Enterprises, Inc., 429 U.S. 610 (1977).

Therefore, to the extent that the misuse doctrine proscribes on economic grounds conduct that is not unlawful under an antitrust analysis, the doctrine is inconsistent with sound competition policy because it can deter procompetitive or otherwise desirable conduct. This economic divergence of the misuse doctrine from the antitrust analysis represents unsound economic policy that should not survive post-*Continental TV* competiton analysis.[31]

Similarly unsupportable on economic grounds are the second line of misuse cases I described previously, where the courts found misuse when the patent owner either refused to license a patent, licensed a patent at a different rate than the patent was licensed to others, or licensed the patent at too high a rate. This type of conduct will seldom if ever raise true competitive concerns. In deciding who to license and how much to charge, the patentee typically is simply seeking to exercise its exclusive rights in a manner that will maximize its profits. It is true as the Supreme Court noted in *Motion Picture Patents* that the progress of science was of primary import to the drafters of the patent laws and that pecuniary reward to the patentee was of secondary importance. However, the two concepts are totally interpendent. Any significant tampering with the patent owner's exclusive rights can lead to a perception of decreased value of a patent, and this perception can result in decreased R&D and hence decreased progress of science. Therefore, the courts should be very hesitant to interfere with the patent owner's exercise of his exclusive patent right, and licensing decisions such as are involved in this second line of misuse cases generally should be classified as misuse only if they violate the antitrust laws.

31. Indeed, it is somewhat mystifying to me how the Supreme Court found support in Section 3 of the Clayton Act for its views of the public policy enunciated in *Motion Picture Patents,* when the Court did not determine whether the conduct violated Section 3. If the conduct in fact fell outside the prohibition of Section 3, it seems that the much stronger argument is that Congress concluded that public policy did not favor deterrence of such conduct rather than that Congress favored it.

This is not to say that there are no situations short of an antitrust violation where courts, in exercise of their equitable jurisdiction, properly should refuse to enforce a valid patent. Courts occasionally have refused to enforce a valid patent where the patentee engaged in inequitable conduct before the Patent Office.[32] Such decisions are sound, however, because there is a clear and definite public policy behind them; unless patent applicants are held to a high level of ethical conduct the ex parte patent examination process will be unacceptably unreliable. However, it is crucial that whenever courts decline to enforce a valid patent, there should be such a clear and definite public need to do so. Patents are an important part of our economic system, and courts should interfere with the patentee's exclusive rights with the same hesitancy as courts have traditionally exhibited when asked to interfere with exclusive rights in other forms of property. Any other course of action will tend to devalue the patent and interfere with the incentive structure envisioned in the patent laws.

As a final note, one caveat should be obvious—I have discussed where the law should be rather than where it is. While, ultimately, I am satisfied that the law will develop to a point where the misuse doctrine is consistent with sound economic principles, at this point patent owners are vulnerable to charges that they have misused their patents even though their conduct is procompetitive and is fully consistent with the policies behind the antitrust laws.

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32. *See e.g.*, E.I. du Pont de Nemours & Co. v. Berkley & Co., 620 F.2d 1247 (8th Cir. 1980); Pfizer Inc. v. International Rectifier Corp., 538 F.2d 180 (8th Cir. 1976).